



Investments Asia Ltd.

Asia Pacific Clean Energy Trade Mission

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Agenda

- Introduction: ABP at a glance
- Objective of ABP
- ABP's investment portfolio over the years (incl results)
- Investment beliefs
- Long term focus
 - New Strategic Investment Plan 2007 - 2009
 - New Strategic Investment Portfolio
 - New Investment Framework
- People and Culture: Overview of the Organization

ABP at a glance

- Enacted by law in 1922
- Pension fund for Dutch civil servants and teachers
- Defined benefit plan with mandatory participation
Investments restricted to domestic investments until 1988
- ABP investments going international 1988
- Privatization 1996 of pension plan; contribution levels no longer set by Dutch government
- Assets under management: Euro 209 bln (Dec 2006)
- Coverage ratio: 133% (Dec 2006)
- Members: 1.1 mln Active, 650.000 retirees, 750.000 “sleepers”

Objective of ABP

- The long term objective of ABP is to offer an affordable pension which can be fully indexed against wage inflation.
- To implement a long term investment policy based on the balance between the realization of maximum real return and acceptable risks (i.e. the chance of expectations not being realized).
- To reduce real investment risks by diversifying between investment categories, strategies and countries.

ABPs investment portfolio over the years

	1970	1980	1990	2000	2005	target 2009
Equities	0.4%	0.2%	5.3%	38.9%	37.0%	34.0%
Real Estate	3.3%	4.3%	6.8%	9.9%	10.4%	9.0%
Infrastructure						2.0%
Fixed Income	96.3%	95.5%	87.9%	49.7%	40.4%	33.0%
Index Linked Bonds				1.5%	2.4%	7.0%
Private Equity					4.2%	5.0%
Commodities					2.5%	3.0%
Hedge Funds					3.1%	5.0%
Innovation						2.0%
total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Assets (bln Euros)	10	37	67	150	190	250
Investment results (bln Euro)	1	3	5	4	18	18
Pension premium (bln Euro)	1	4	2	3	6	n/a

Investment results

Investment results 1993 - 2006

	ABP return	Wage inflation	Difference
1993	16.5%	0.0%	16.5%
1994	-1.0%	0.5%	-1.5%
1995	16.4%	0.8%	15.6%
1996	11.8%	1.3%	10.5%
1997	11.9%	2.3%	9.6%
1998	12.9%	2.4%	10.5%
1999	10.0%	2.8%	7.2%
2000	3.2%	3.5%	-0.3%
2001	-0.7%	4.1%	-4.8%
2002	-7.2%	3.8%	-11.0%
2003	11.0%	2.7%	8.4%
2004	11.5%	0.2%	11.3%
2005	12.8%	0.4%	12.4%
2006	9.5%	3.7%	5.8%
Average	8.2%	2.0%	6.2%



Note: wage inflation is the wage inflation of the sectors government and education. The average return was calculated geometrically

Investment beliefs

- Our investment beliefs determine how we define and implement our investment strategy
- Our beliefs are based on academic insights, our investment experience and our view on critical success factors.
- Our beliefs relate to:
 - Merits of financial markets
 - Taking advantage of a long term pension investor
 - Success factors of an investment organization

Investment beliefs: a selection

- Investment risk is rewarded
- Diversification is key
- Financial markets are not entirely efficient
- There is a premium for illiquidity
- Long term investments will pay off
- People and culture are critical success factors

Long term focus

- New Strategic Investment plan 2007 - 2009
- New Strategic Investment Portfolio
- New Investment Framework

New Strategic Investment Plan 2007 - 2009

Summary

- Shift to real assets and private markets
- Modest change to the current portfolio
- Increase of duration of the fixed income portfolio
- Integration of ESG factors in investment process
- Maintaining long term horizon

Our new strategic portfolio is determined by

- ALM study
 - 6000 potential portfolios in 5000 different economic scenarios
 - Each portfolio is validated in terms of risk and return
 - Each portfolio is validated against non-numeric criteria
- Previous strategic investment plan
 - Continuation of successful investment policy 2004 – 2006
 - More emphasis on mismatch risk by the regulator
 - An improved coverage ratio (133% (2006) versus 103% (2003))

New Strategic Portfolio: return profile

- Greater focus on long term real returns
 - Small increase in long term expected return
- Greater allocation to private, illiquid investments which yield higher and more stable returns in the long run
 - Modest shift from Fixed Income to real assets and an increase in duration
- These markets match ABP's competitive edge, i.e. AUM, long term horizon, the set up of the organization
- Long term return expectation is 6.2% real return and 0.8% alpha.

New Strategic Portfolio: risk profile

- Lower expected long term risk, i.e. probability that coverage ratio falls below 100%
- Lower expected short term risk: probability that current coverage ratio falls below 104% within 1 year is less than 1%

New strategic portfolio 2007 - 2009

		SIP 04 - 06		SIP 07 - 09
Equities				
	<i>developed</i>	30.5%		27%
	<i>emerging</i>	3.5%		5%
Convertible bonds		2.0%		2%
Private Equity		4.0%		5%
Hedge Funds		3.5%		5%
Commodities		2.5%		3%
Real Estate		10.0%		9%
Infrastructure		0.0%		2%
Innovation		0.0%		2%
Total Real Assets		56.0%		60%
Index linked Bonds		4.0%		7%
Government Bonds		15.0%		10%
Corporate Bonds		25.0%		23%
Total Fixed Income		44.0%		40%

New Investment Framework

- Explicit link between investments and liabilities
 - Return benchmark: return of liabilities
 - Risk benchmark: mismatch risk
- Two portfolios
 - Liability hedging portfolio
 - Risk optimizing portfolio
- Focus on innovative investment strategies

New Investment Framework: two portfolios

- Liability Hedging Portfolio: Minimal mismatch risk in real terms, almost a “risk free” portfolio, i.e. the indexation portfolio.
- Risk Optimizing Portfolio: Highest possible return in real terms within the risk budget. This portfolio has a long term investment horizon and tries to take advantage of our competitive edge, i.e. the return portfolio
- Both portfolios combined equal the current investment portfolio

Implementation of new investment framework

Like mixing hot & cold water...by regulating the mixer tap a wide range of temperatures is possible!

ROP



LHP

Implementation of new investment framework

	SIP 07 - 09	LHP	ROP
Equities			
<i>developed</i>	27%	2%	25%
<i>emerging</i>	5%		5%
Convertible bonds	2%	1%	1%
Private Equity	5%		5%
Hedge Funds	5%	2%	3%
Commodities	3%	1%	2%
Real Estate	9%	2%	7%
Infrastructure	2%	2%	
Innovation	2%	1%	1%
Total Real Assets	60%	11%	49.0%
Index linked Bonds	7%	7%	
Nominal bonds	33%	22%	11%
Total Fixed Income	40%	29%	11.0%
Total	100%	40%	60%

Note: We use this split as an example to illustrate that LHP is not only fixed income investments. The actual split between LHP and ROP will be different.

Innovation

- Innovation as a source for attractive returns in the future
- Utilizing ABP's competitive edge as a long term investor, its professional organization and ability to diversify risk and risk control
- Max. 2% of the total portfolio (allocation from equities)
- Focus on new scalable mandates (internal or external) that fall outside existing structures/mandates (example Timber)
- Innovation Committee

Environmental, Social and Governance issues

- ESG factors: non-financial information of companies and markets that have a long term financial impact
- Integration in investment process. Our objective is to improve the long term return-risk profile of the portfolio. Implementation starts (2007) with 2 internally managed equity portfolios (Euro 22 bln)
- Use of these factors are in line with ABP's statement of investment principles and previous experience:
 - Corporate Governance (e.g. Eumedion)
 - UN-Principles on Responsible investments
 - Pharma Future & Carbon Disclosure
 - CO2 investment mandate

ABP Investments: Organization Structure

- Heerlen (Pension Fund Head Office) (100)
 - Back Office, IT
- Amsterdam (200)
 - Allocation and Research, Equities, Fixed Income, Real Estate, Index Linked Bonds, Commodities, Infrastructure, Private Equity, Innovation
- New York (90)
 - Fixed Income, Real Estate, Hedge Funds
- Hong Kong (10)
 - Real Estate, Infrastructure

Why New York Office (since 1998)?

- Strategic allocation into Fixed Income spread products
- Increased allocation into US Real Estate
- Build out ABPs internal investment management capability (investment expertise)
- Build new organization rather than acquire existing one (no goodwill, focus on ABP, company culture issues)
- New York: financial center, availability of skilled professional.

Why Hong Kong Office (since 2007)?

- Strategic Allocation into Infrastructure
- Increased allocation into Non-Listed Real Estate Asia
- Platform from which the necessary relations and the network can be built up and offers the possibility for expanding local knowledge and skills, which will be necessary for further expansion of ABP's investments in Asia and ABP as a whole.
- Build new organization rather than acquire existing one (no goodwill, focus on ABP, company culture issues)
- Hong Kong: easy access to the network, Asia's financial center, availability of skilled professional.